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CENTRAL INTELLIGENCE AGENCY

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DIA and DOS review(s) completed.

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[REDACTED]

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THE ARAB-ISRAELI SITUATION

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[REDACTED]

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[REDACTED]

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[REDACTED]

1. NASR SEEKS TO RESUME NEGOTIATIONS WITH WEST ON HIGH DAM

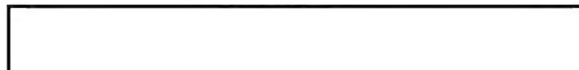
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Egyptian president Nasr wants to resume negotiations with the West on the Aswan High Dam project, according to Egyptian ambassador Hussein, who has been ordered to return quickly to Washington to press the matter. Hussein says Nasr "gave the impression" that changes Egypt had suggested in the American and British notes on the project were not really important, and if the United States and Britain wish to proceed, "language" should not be a great difficulty. Nasr, according to Hussein, again denied that the USSR would be permitted to participate in a Western-financed undertaking.

Comment

Despite Hussein's report of his talk with Nasr, there is no reason to believe that Egypt is less sensitive to questions of "language" than it was when negotiations on the dam project slowed down last winter. Furthermore, a basic difficulty will remain in Nasr's desire for a guarantee that the entire amount of money needed to complete the project will be placed at once under Egyptian, not Western, control.



2. SUPREME SOVIET MAY ABOLISH KARELO-FINNISH REPUBLIC

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The current session of the USSR Supreme Soviet will probably downgrade the Karelo-Finnish Republic to the status of a "Karelian" area in the Russian federation (RSFSR).

Such a move would probably be designed to improve Soviet relations with Finland, which has consistently objected to the existence of the Karelo-Finnish Republic in the USSR. It would facilitate a return of a portion of the Finnish territory ceded to the Soviet Union in 1940.

Inclusion of the question on the Supreme Soviet agenda suggests that Soviet president Voroshilov may make such an offer when he visits Finland starting 21 August. Reports that some Finnish territory would be returned have been circulating in Scandinavia for several weeks. Reports of recent explosions on the Soviet side of the border with Finland have indicated to some observers that the Russians are destroying installations prior to withdrawing from the area.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 11 July)

The American embassy in Tel Aviv believes that the increasing number of incidents on Israel's border with Jordan, with the recurrence of Israeli civilian fatalities, may lead Israel to take retaliatory action in the near future. The embassy says Israel presumes that the Jordan government is responsible,

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[redacted] Ambassador Lawson suggests that Prime Minister Ben-Gurion's warning to Jordan, which was relayed through UN Truce Supervisor Burns, may be intended to satisfy demands of moderate elements in the cabinet for a diplomatic demarche prior to any military retaliation. [redacted]

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Ben-Gurion has expressed to Ambassador Lawson his belief that UN secretary general Hammarskjold may have discussed in Moscow the idea of separate implementation by Jordan and Israel, under the UN, of parts of the Johnson water plan for developing the Jordan River valley. Hammarskjold had discussed this idea previously with Ben-Gurion. [redacted]

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Eight Soviet naval officers are currently in Egypt to discuss location and construction of a submarine base on the coast west of Alexandria. [redacted]

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[redacted] Egypt plans to construct three submarine bases--one at Adabiya in the Gulf of Suez, one in the delta region between Port Said and Alexandria, and a third between Alexandria and Mersa Matruh. [redacted]

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BIWEEKLY SUMMARY
(28 June-11 July 1956)

THE TAIWAN STRAIT

**Report of the IAC Current Intelligence Group
for the Taiwan Strait Problem**

25X1A 1. There was no significant combat activity during the period.
[REDACTED]

25X1A 2. Chou En-lai in a speech on 28 June issued a formal invitation for the "Taiwan authorities" to negotiate with Peiping for the "peaceful liberation" of Taiwan. He charged that the US was "by no means reliable" as an ally. He repeated previous assurances of amnesty, and invited Nationalists to visit the mainland under a guarantee of freedom to return to Taiwan. In regard to the Geneva talks, he restated the Communist demand that any renunciation of force must not prejudice Communist China's "right" to "liberate" Taiwan by "war or by peaceful means."
[REDACTED]

3. On 2 July a Peiping radio broadcast cited with approval a statement by the Nationalist government's Control Yuan criticizing US aid policy. This broadcast marks the first extension to Taiwan of Peiping's line that even strongly anti-Communist officials are restive under American "domination."
[REDACTED]

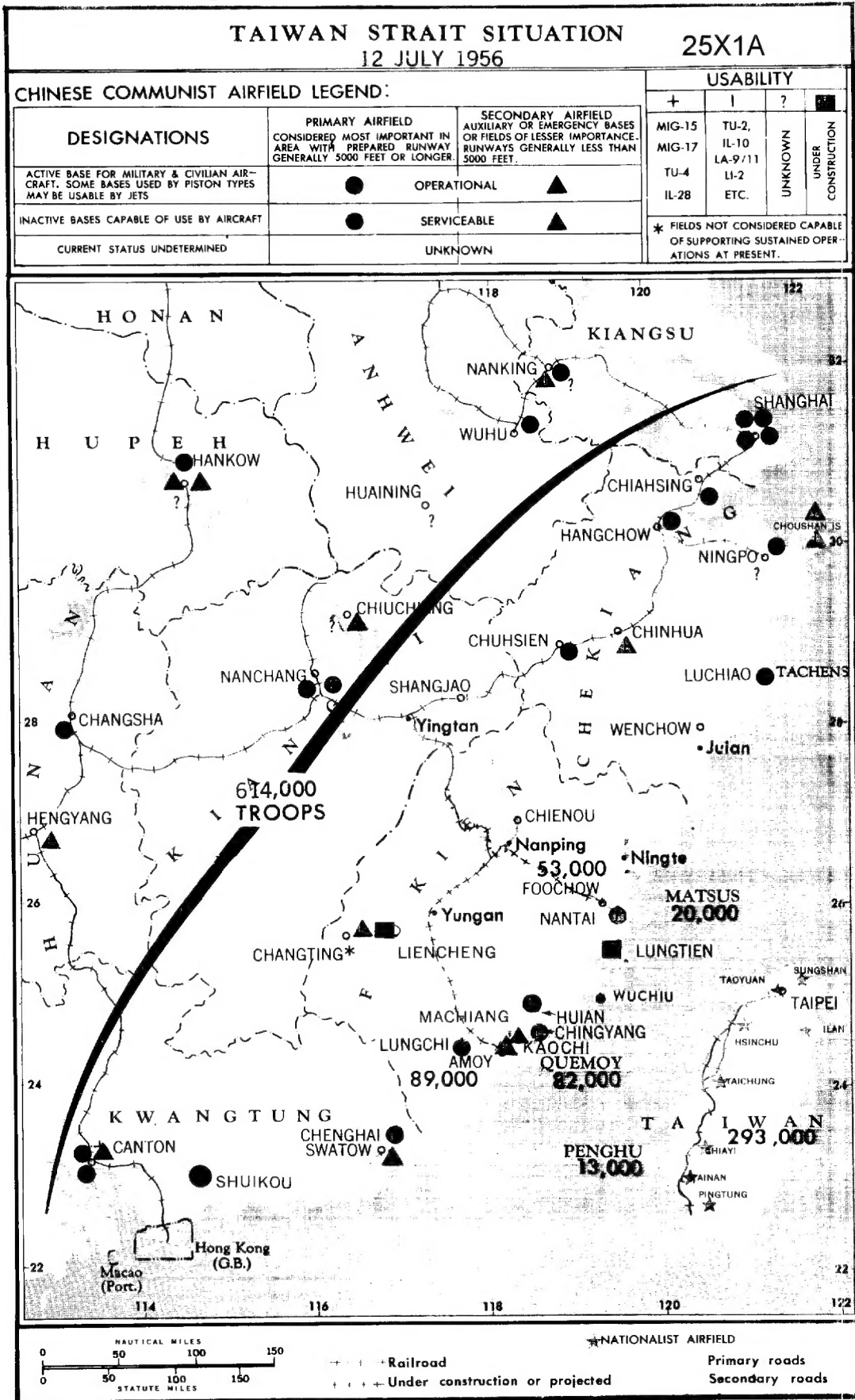
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